AVIVA

Will Ireland weather the storm?

Jim Power's mid-year outlook on the Irish & global economy

June 2026

Key points

At the beginning of 2026, the outlook for the global economy was generally positive, with global growth expected to maintain the resilience that characterised 2025. There was deep concern in 2025 against a background of intense uncertainty relating to US trade policy and global geo-political disruption, but the global economy proved very resilient, with growth surprising on the upside. The expectation in January was that global growth in 2026 could be modestly stronger, but the eruption of the Iranian crisis has created massive uncertainty and volatility.

Since the beginning of the Iran war and the subsequent instability in the Middle East, inflation everywhere has edged up, growth has weakened in the EU, but the US economy continues to prove quite resilient. Energy costs have become incredibly volatile, and at the time of writing (June 18th), Brent Crude is trading at $78 per barrel, having been up at $120 recently. Hopes are high that a peace deal will be agreed, but the sustainability of such an agreement is shrouded in uncertainty. An ending of the war in a sustainable way would be good for growth, and inflation would eventually ease back towards the 2 per cent desired range.

For central bankers the dilemma between the impact of the crisis on inflation and on economic growth is challenging. The crisis in the Gulf is pushing inflation higher but is also damaging economic growth prospects. Central banks generally want to anchor inflation expectations and prevent an inflation psychology from becoming entrenched in behaviour. The ECB increased rates by 0.25 per cent on June 11th, with the markets expecting another 0.25 per cent increase later in the year. It believes there are downside risks to growth and upside risks to inflation. A sustained reduction in oil prices could obviate the need for further increases.

The Irish economy has performed quite strongly so far this year, despite higher energy costs and intense uncertainty and volatility. Modified domestic demand, a broad measure of underlying domestic activity that covers personal consumption on goods and services, government net expenditure, and investment spending increased by 0.6 per cent during the first quarter and was 4.3 per cent higher than a year earlier. In overall terms, despite the statistical distortions, the real domestic economy performed solidly during the first quarter.

The labour market is still solid; tax revenues are still growing strongly; consumer spending is reasonably strong; and exports have weakened sharply, following an unsustainable surge driven by tariff uncertainty. The economy looks set to deliver another solid year in 2026, although some modest weakening in the labour market is likely. Growth of around 2.5 per cent in the real economy looks achievable, representing a solid outturn.

Global economic backdrop

At the beginning of 2026, the outlook for the global economy was generally positive, with global growth expected to maintain the resilience that characterised 2025. There was deep concern in 2025 against a background of intense uncertainty relating to US trade policy and global geo-political disruption, but the global economy proved very resilient, with growth surprising on the upside and the main forecasting agencies spent the year upgrading their forecasts. This was due to the front-loading of exports related to US tariff threats; fiscal expansion in many countries, particularly the US and China; looser monetary policy; relatively stable financial markets; and the AI-related investment boom.

The general expectation was that this momentum would carry over into 2026. Then on February 28th the situation changed in a significant way. The Middle East war has unleashed significant volatility and uncertainty, particularly in relation to energy prices. The real impact will ultimately depend on how long the war lasts, and unfortunately it is still difficult to reach any firm conclusions in relation to when or how the war might end in a sustainable way.

Growth everywhere has been impacted to varying degrees by the Iranian crisis. Euro Zone growth contracted by 0.2 per cent during the first quarter. This is the first contraction since the final quarter of 2022. Both Ireland and France saw a contraction in GDP. In the case of Ireland, this primarily reflected a sharp contraction in exports of chemical & pharmaceutical products following a tariff-driven surge in 2025. UK GDP expanded by 0.6 per cent in the first quarter, which was quite strong, but there are doubts about the sustainability of growth. In the US, annualised growth slowed to 1.6 per cent.

Table 1: Global Growth Performance (Q1 2026)

Country/Region	Quarter-on-Quarter (%)	Year-on-Year (%)
Euro Zone	-0.2%	0.3%
Germany	0.3%	0.4%
France	-0.1%	0.9%
Italy	0.3%	0.8%
Spain	0.6%	2.7%
Ireland	-12.1%	-17.1%
United Kingdom	0.6%	1.1%
United States	1.6% (Annualised)	2.7%
Australia	0.3%	2.5%
Canada	0.0%	-0.1%
China	1.3%	5.0%
Japan	0.5%	0.6%

Source: National Statistical Agencies

In overall terms, the conflict in the Middle East has been the dominant theme since the end of February. Thankfully the global economy was quite resilient coming into the year and so the overall impact has not been too significant thus far. However, disruptions to shipments, higher energy prices, higher fertiliser costs and other industrial inputs, higher consumer prices have combined to generate considerable uncertainty and volatility.

Table 2 shows the current inflation readings across a range of countries. Unfortunately, the positive outlook for interest rates and inflation that prevailed at the beginning of the year has deteriorated. The view in January was that interest rates would be unchanged in the Euro Area for the duration of 2026, and that rates would probably fall in the US and UK. The problem now is that inflation is unacceptably high in most jurisdictions due to the Iranian crisis, and central bankers have become increasingly nervous. Unemployment has increased modestly in most countries, but the impact of the war to date has not had much impact on labour markets.

Table 2: Global Inflation & Unemployment

Country/Region	Inflation Rate (%)	Unemployment Rate (%)
Euro Zone	3.2% (May)	6.3% (April)
Germany	2.6% (May)	6.3% (May)
France	2.4% (May)	8.1% (March)
Italy	3.2% (May)	5.1% (April)
Spain	3.2% (May)	10.8% (March)
United Kingdom	2.8% (May)	4.9% (April)
United States	4.2% (May)	4.3% (May)
Australia	4.2% (April)	4.5% (April)
Canada	2.8% (April)	6.6% (May)
China	1.2% (May)	5.2% (April)
Japan	1.4% (April)	2.5% (April)

Source: National Statistical Agencies

The nature of current uncertainty has been highlighted by the approach adopted by the IMF and the OECD.

In the case of the IMF, there is so much uncertainty that it has resorted to scenario forecasting. It has posited a ‘reference’ scenario, an ‘adverse’ scenario, and a ‘severe’ scenario.

- The ‘reference’ forecast assumes that the impact of the war will fade from mid-year onwards. In this scenario global GDP growth is projected at 3.1 per cent in 2026 (just 0.2 per cent lower than its January pre-war forecast) and 3.2 per cent in 2027. Average inflation is forecast at 4.4 per cent in 2026 and 3.7 per cent in 2027.

- The 'adverse' scenario assumes that energy prices stay higher for longer. In this scenario global GDP growth is projected at 2.5 per cent in 2026, and 3 per cent in 2027. Average inflation is forecast at 5.4 per cent in 2026 and 3.9 per cent in 2027.
- The 'severe' scenario assumes that there is more extensive and long-lasting damage to energy infrastructure. In this scenario global GDP growth is projected at 2 per cent in 2026 (which is virtually recessionary conditions), and 2.2 per cent in 2027. Average inflation is forecast at 5.8 per cent in 2026 and 6.1 per cent in 2027.

In the case of the OECD, its June outlook considered two possible trajectories; a time-limited disruption scenario in which disruptions remain relatively short-lived and energy prices gradually ease from mid-2026 onward, and a prolonged disruption scenario that persists well into 2027, with broader, much more long-lasting negative consequences.

Table 3 shows the growth projection under the benign scenario, with global growth slowing from 3.4 per cent in 2025 to 2.8 per cent in 2026, before recovering to 3.1 per cent in 2027.

In the second scenario where disruptions persist well into 2027, global growth is expected to slow to 2.1 per cent in 2026 and 1.8 per cent in 2027, potentially pushing some economies into or close to recession. In this scenario, unemployment would rise, investment would weaken significantly, including in energy-intensive AI, with increasing risks of financial market repricing.

Table 3: OECD Economic Outlook (June 2026)

Country/Region	2025	2026f	2027f
World	3.4%	2.8%	3.1%
Euro Zone	1.4%	0.8%	1.2%
Germany	0.3%	0.7%	1.1%
France	0.9%	0.7%	0.8%
Italy	0.5%	0.5%	0.6%
Spain	2.8%	2.2%	1.7%
United Kingdom	1.4%	0.9%	1.1%
United States	2.1%	2.0%	1.8%
Australia	2.0%	1.9%	1.8%
Canada	1.7%	1.2%	1.7%
China	5.0%	4.5%	4.3%
Japan	1.1%	0.6%	0.8%

Source: OECD Economic Outlook, Volume 2026 Issue 1: Preliminary Version.

Whatever way one looks at it, the outlook is dominated by uncertainty. The key risks identified by the IMF and others, apart from the war in the Gulf, include geopolitical tensions; shocks to the supply of essential raw materials, trade disruption; a tightening of monetary policy in response to the inflationary impact of higher energy costs; disappointment in the profitability of AI investment; prolonged fiscal deficits and the accumulation of public debt; damage to crucial institutions such as central banks and the consequent destabilisation of inflation expectations; and longer-term shifts in global economic leadership.

Factors cited on the upside include the resilience of the global economy coming into 2026; the AI investment boom, which is ongoing; the reorientation of global trade in response to US and Chinese trade tensions, and trade tensions in general; US protectionism has not spread to the rest of the world by and large; and the tariff burden is not as bad as it might have been. However, the tariff issue has still not gone away.

So far, the impacts of the war have been dominated by severe disruption in the Strait of Hormuz and the damage to oil and LNG infrastructure. Higher inflation is already materialising. The first-round effects on inflation will be felt through energy prices, but the second-round effects will come through in areas such as packaging, fertiliser, transportation, and many other channels. The crisis has just exacerbated an already difficult cost-of-living and cost-of-doing business situation in Ireland and elsewhere. This is leading to serious political disruption as evidenced by the recent energy protests in Ireland, and many governments around Europe have either delivered or are planning significant aid packages. This of course will have implications for public finances and will seriously exacerbate debt problems in countries such as Britain, Italy and France. At least in Ireland's case, the €750 million package will come from the budget surplus resulting from buoyant corporation tax receipts, but this spending will impact budgetary policy going forward and the opportunity cost will become apparent as early as October 6th when Budget 2027 is scheduled to be delivered.

At the time of writing (June 18th) there is greater optimism about a peace deal and oil prices have fallen under $78 per barrel. If this is sustained it would be good news for the global economy. Meanwhile equity markets continue to be driven higher by the AI investment frenzy. Markets are in very heady territory but have been for some time.

Interest Rates

For central bankers the dilemma between the impact of the crisis on inflation and on economic growth is challenging. The crisis in the Gulf is pushing inflation higher but is also damaging economic growth prospects. Central banks generally want to anchor inflation expectations and prevent an inflation psychology from becoming entrenched in behaviour.

The ECB left interest rates unchanged at its April meeting, but it was a close call. At that stage ECB policymakers were concerned that the energy-driven supply shock is proving more persistent than originally expected, increasing the risk of broader and more entrenched inflationary pressures. The ECB duly increased rates by 0.25 per cent on June 11th, with the markets expecting another 0.25 per cent increase later in the year. It believes there are downside risks to growth and upside risks to inflation.

The Bank of England left its Bank Rate unchanged at 3.75 per cent at the June 18th meeting. Like other central bankers, the UK monetary authority is concerned about energy prices feeding into more persistent inflation. The UK economy is not healthy enough to warrant higher interest rates, but the risk of higher rates still exists. At the June 18th meeting 2 members of the 9-member Monetary Policy Committee (MPC) voted to increase rates by 0.25 per cent.

The Bank of Japan increased rates by 0.25 per cent to 1 per cent in June, which is the highest level since September 1995. This is to prevent the Iran shock from feeding broader inflation. It will continue to raise rates as warranted by economic, price, and financial developments.

The Federal Reserve kept the Fed Funds rate unchanged in the range of 3.5 per cent – 3.75 per cent at the new Chairman's first meeting in charge on June 17th. Growth is strong and inflation is running at 4.2 per cent. The economy has created 565,000 jobs over the past 3 months. The previous bias towards lower rates has been dropped and 9 Fed officials out of 19 now believe that interest rates will rise this year, compared to none in March.

The Irish economy

National Accounts

As always, interpretation of the Irish national accounts is challenging. In the first quarter of 2026, GDP declined by 12.1 per cent, and was 17.1 per cent lower than the first quarter of 2025. Export growth for much of 2025 was distorted by front loading ahead of tariffs, and it has tailed off dramatically over past six months. This has impacted dramatically on the export contribution this year, and this is likely to remain a feature for the next couple of quarters. Output from the multi-national sector declined by 27.1 per cent during the first quarter, and output from the domestic sector expanded by 0.4 per cent. Modified domestic demand, a broad measure of underlying domestic activity that covers personal consumption on goods and services, government net expenditure, and investment spending increased by 0.6 per cent during the quarter and was 4.3 per cent higher than a year earlier.

In overall terms, despite the statistical distortions, the real domestic economy performed solidly during the first quarter.

Table 4: Q1 2026 Economic Activity

	Quarter-on-Quarter (%)	Year-on-Year (%)
GDP	-12.1%	-17.1%
GNP	+1.5%	+18.8%
Modified Domestic Demand	+0.6%	+4.3%
Consumer Expenditure	+0.6%	+2.6%
Government	+0.5%	+3.7%
Gross Domestic Fixed Capital Formation	-0.8%	-34.5%
Exports of Goods & Services	-7.0%	-13.3%
Imports of Goods & Services	+4.2%	+2.3%

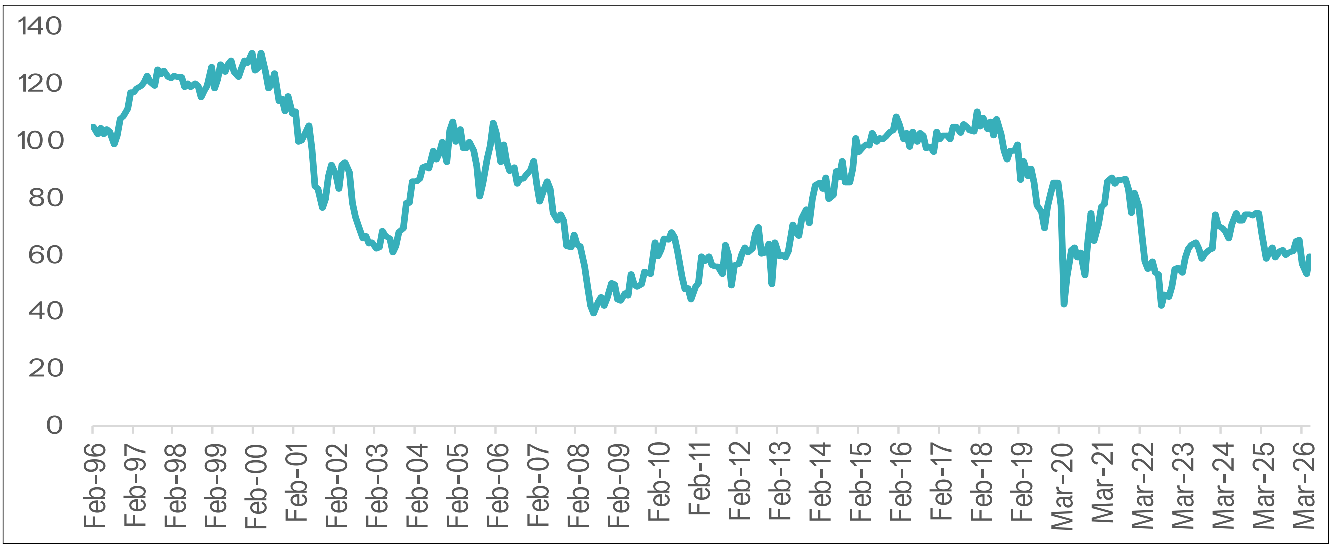
Source: CSO.

Consumer Dynamics

Consumer confidence took a heavy hit in March and April, declining by 18.3 per cent as consumers started to become deeply concerned about the impact of the Iran war. It then rebounded strongly in May, jumping by over 11 per cent. This improvement in sentiment was driven by easing energy costs, government support measures, and greater optimism about the ceasefire. The sentiment reading in May stood at 59.4, which is still well below the long-run average of 83.3. This fragility largely reflects cost-of-living pressures.

Of course, the Iranian war and the impact on the rest of the Gulf region is still ongoing and it is not clear how it can be resolved in a sustainable way. At the time of writing, the price of a barrel of Brent Crude Oil is standing at $78 per barrel, having been but up to $120. However, the price in June is still 59 per cent higher year to date.

Figure 1: Consumer Confidence



Source: ILCU

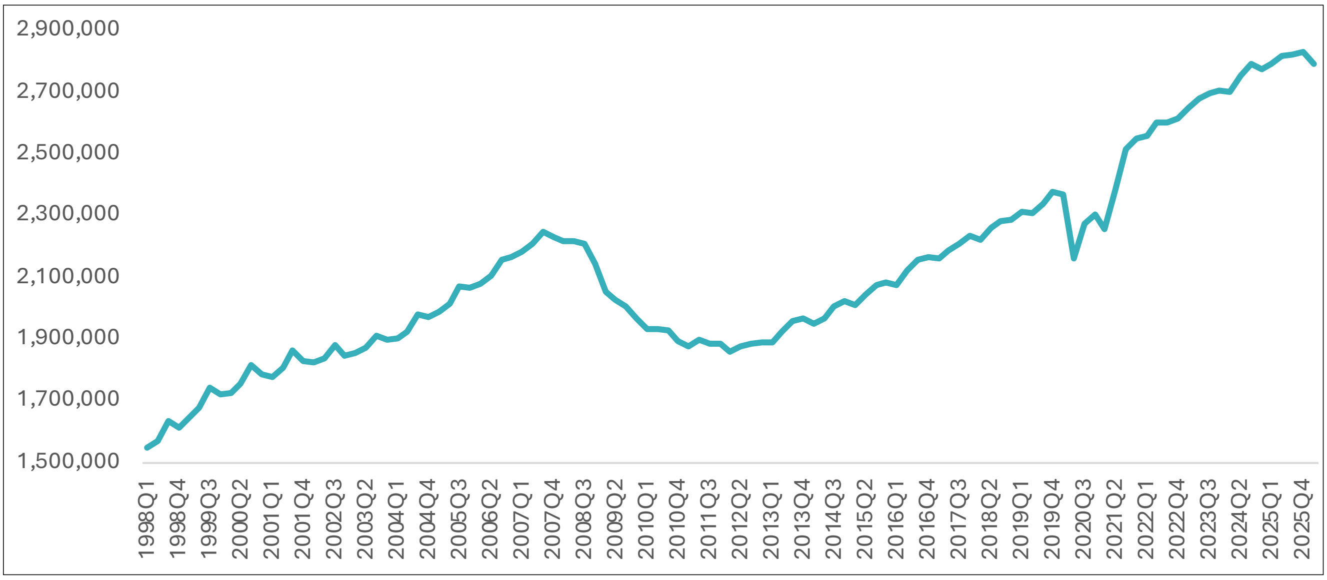
The retail environment is still quite challenging. In April, the volume of retail sales decreased by 0.2 per cent in the month and by 0.5 per cent in the 12 months from April 2025. When the motor trade is excluded, the volume of sales declined by 0.6 per cent in the month and was 0.4 per cent up on a year earlier.

In the first 4 months of the year, the volume of retail sales was 1.1 per cent higher than the first 4 months of 2025 and was 1 per cent higher when the motor trade is excluded.

Labour Market

An estimated 2,794,500 persons were employed in the first quarter of 2026. This is just 400 higher than the equivalent quarter in 2025. Male employment increased by 1.2 per cent or 17,100 in the year to the first quarter, while female employment declined by 1.3 per cent or 16,800. The unemployment rate in May stood at 4.9 per cent of the labour force, up from 4.6 per cent a year ago.

Figure 2: Total Employment in the Irish economy



Source: CSO PxStat

Table 5: Labour Market Composition & Change (Q1 2026)

Sector	Q1 2025	Q1 2026	Change
Agriculture, forestry & fishing	107,600	105,500	- 2,100
Construction	177,800	195,600	17,800
Wholesale & retail trade	320,700	321,400	700
Transportation & storage	111,800	132,000	20,200
Accommodation & food service activities	186,200	169,900	- 16,300
Information & communication	189,700	169,500	- 20,200
Professional, scientific & technical activities	197,500	184,200	- 13,300
Administrative & support service activities	111,300	99,400	- 11,900
Public administration & defence; compulsory social security	151,600	147,600	- 4,000
Education	252,500	260,700	8,200
Human health & social work activities	368,500	381,700	13,200
Industry	332,600	349,700	17,100
Financial, insurance & real estate activities	152,100	150,500	- 1,600
Other NACE activities	128,000	119,000	- 9,000
Not stated	6,500	7,900	1,400
Total	2,794,100	2,794,500	400

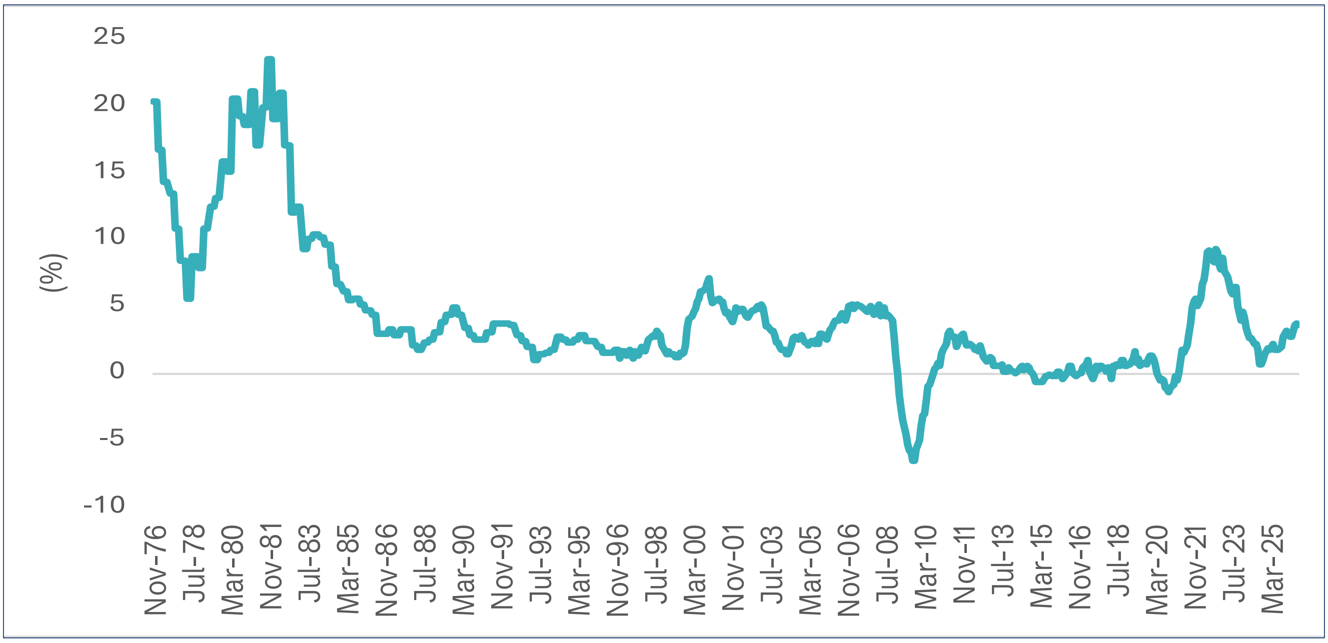
Source: CSO PxStat

Inflation

The annual rate of consumer price inflation increased to 3.7 per cent in April, which is the highest rate since January 2024, but then eased back to 3.6 per cent in May. The annual rate of inflation in the first 5 months of the year averaged 3.26 per cent, which compares to an average rate of 2.2 per cent in 2025. The impact of the Iranian war is feeding through strongly, and this would be more pronounced but for the intervention of Government in cutting excise duties on motor fuels.

For the consumer, the cost-of-living pressures are intense. The average price level in May 2026 was 25.9 per cent higher than 6 years earlier. Table 6 shows the change in prices for several goods and services over the past 6 years.

Figure 3: Consumer Price Inflation (%YoY)



Source: CSO

Table 6: Evolution of Consumer Prices

	Annual % Change (May 26)	% Change May 20 to May 26
All items	3.6%	25.9%
Food	1.2%	25.4%
Clothing and footwear	7.4%	-0.3%
Private rents	3.9%	39.1%
Mortgage interest	7.7%	94.8%
Electricity	3.3%	70.5%
Gas	-0.7%	88.3%
Health	1.7%	13.2%
Motor cars	-0.2%	26.7%
Petrol	10.1%	41.5%
Diesel	20.0%	71.7%
Home Heating Oil	60.1%	253.2%
Restaurants, cafes and the like	4.0%	31.0%
Accommodation services	0.0%	36.5%
Hairdressing	4.5%	37.7%
Insurance connected with health	9.0%	39.8%
Motor car insurance	-2.7%	-9.5%

Source: CSO PxStat

Exchequer finances (January-May 2026)

An Exchequer deficit of €2.3 billion was recorded in the first five months of the year. This is down from a surplus of €4 billion in the same period in 2025. Last year's revenues were impacted by the Apple Tax receipts, and when this and the contribution to the two State funds are excluded, a decline of €3 billion was recorded in the underlying Exchequer balance. In the first five months €2.25 billion was paid into the Future Ireland Fund, and €1 billion into the Infrastructure, Climate and Nature Fund.

In May:

- Tax revenues in the month of May were 11.1 per cent ahead of May 2025, with income tax up by 15 per cent, VAT by 13 per cent, and corporation tax by 9.7 per cent. May was a strong month for the three key components of tax revenue.

In the first five months of the year:

- Tax receipts of €38.7 billion were collected, which was 1.3 per cent or €483 million higher than last year. When the one-off receipts of the Apple Tax are excluded from 2025, tax revenues were €2.2 billion or 6.1 per cent ahead of the equivalent period in 2025.
- Income tax receipts were 7.5 per cent or €1 billion ahead of last year. This is indicative of the ongoing strength and health of the labour market.
- VAT receipts were 7.1 per cent or €813 million ahead of last year. This is indicative of a solid level of consumer spending.
- Excluding the Apple Tax receipts, corporation tax was €516 million or 9.1 per cent ahead of last year.

In relation to expenditure:

- Total gross voted expenditure was 7.2 per cent ahead of last year. Gross voted current expenditure was 7.4 per cent ahead of last year. Gross voted capital expenditure was 5.3 per cent ahead of last year.

The overall Exchequer returns are indicative of an economy that is still generating considerable tax revenues, and where Government expenditure is still growing strongly. The effects of the Iran war are not yet being reflected in the overall economy or the public finances, other than the 3.6 per cent decline in excise duties following Government measures. On the expenditure side, the pressure on the Government to provide further aid will intensify if the war persists and energy prices remain elevated.

The requirement to manage the public finances very carefully is now paramount, given the obvious economic risks ahead.

Table 7: Tax Revenues (Jan-May 2026)

	€m	YEAR-ON-YEAR CHANGE (%)	YEAR-ON-YEAR CHANGE (€m)	% TOTAL
Income Tax	15,613	+7.5%	1,094	40.4%
VAT	12,234	+7.1%	813	31.6%
Corporation Tax	6,193	+9.1%	516	16.0%
CJEU Ruling (Apple Tax)	-	-	-1,726	-
Excise	2,515	-3.6%	-94	6.5%
Stamps	702	-3.1%	-22	1.8%
Capital Gains Tax	379	-13.6%	-60	1.0%
Capital Acquisitions Tax	132	-44.7%	-106	0.3%
Customs	248	+1.4%	3	0.6%
Motor Tax	412	+0.0%	0	1.1%
Unallocated Tax Deposits	182	-	44	0.5%
Other Property Taxes	49	-	22	0.1%
Total	38,660	+1.3%	483	100.0%

Source: Department of Finance Fiscal Monitor, June 4th, 2026.

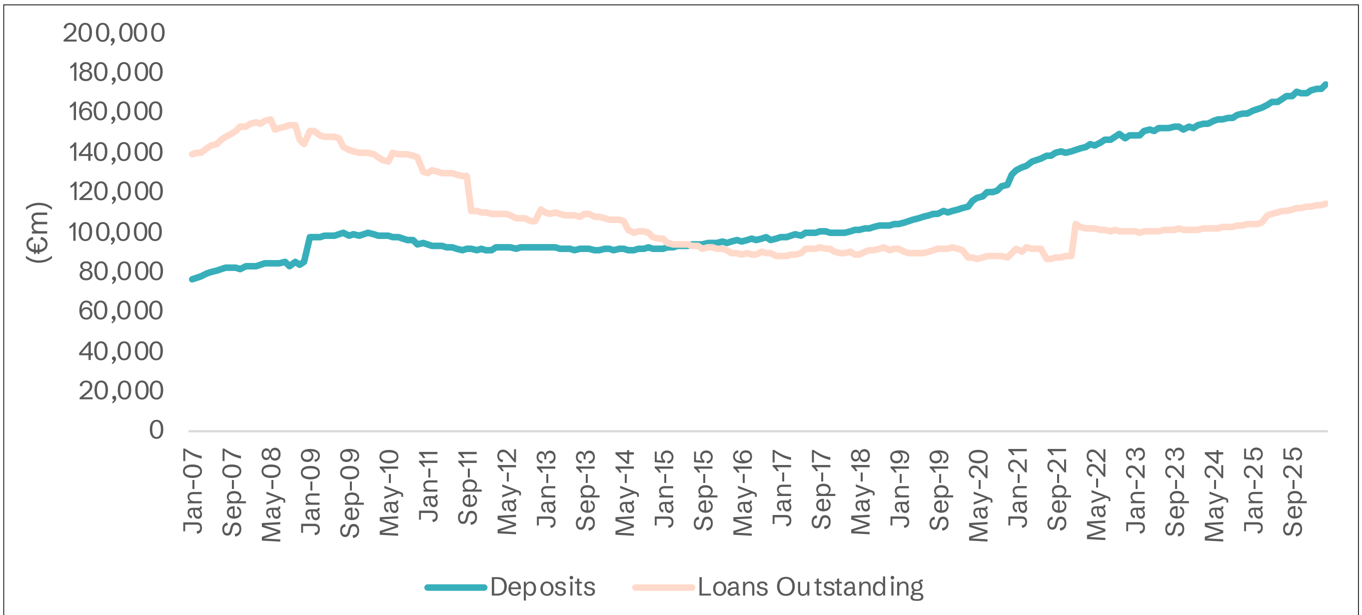
The overall Exchequer returns are suggestive of an economy that is still generating considerable tax revenues, and where Government expenditure is still growing strongly. The effects of the Iran war are not yet being reflected in the economy or the Exchequer finances, but the downside risks to growth and tax revenues are likely to become apparent over the coming months. On the expenditure side, the pressure on Government to provide aid will intensify.

The requirement to manage the public finances very carefully is now paramount, given the obvious economic risks ahead.

Household Balance Sheet

The household balance sheet remains very solid. At the end of April 2026, household deposits totalled €174.2 billion and household credit outstanding stood at €114.1 billion. Mortgage finance accounted for €94.9 billion or 83.2 per cent of household credit outstanding.

Figure 4: Household Balance Sheet



Source: Central Bank of Ireland.

Against a backdrop of structurally high retail electricity prices, partly stemming from infrastructure bottlenecks, continued pressure on energy prices would weigh on vulnerable households. Trade in goods with the Middle East is relatively small (around 2% of total goods trade in 2025). As such, exposure to the conflict is largely indirect, mainly reflecting terms-of-trade effects. Direct exposure to import tariffs imposed by the United States is limited. Pharmaceuticals, which accounted for around 75% of goods exports to the United States in 2025, remain exempt, largely reflecting firm-level agreements. However, recent tariff increases on inputs, such as aluminium, may raise production costs in some exposed manufacturing sectors.

Residential Property Market

CSO data show that in April:

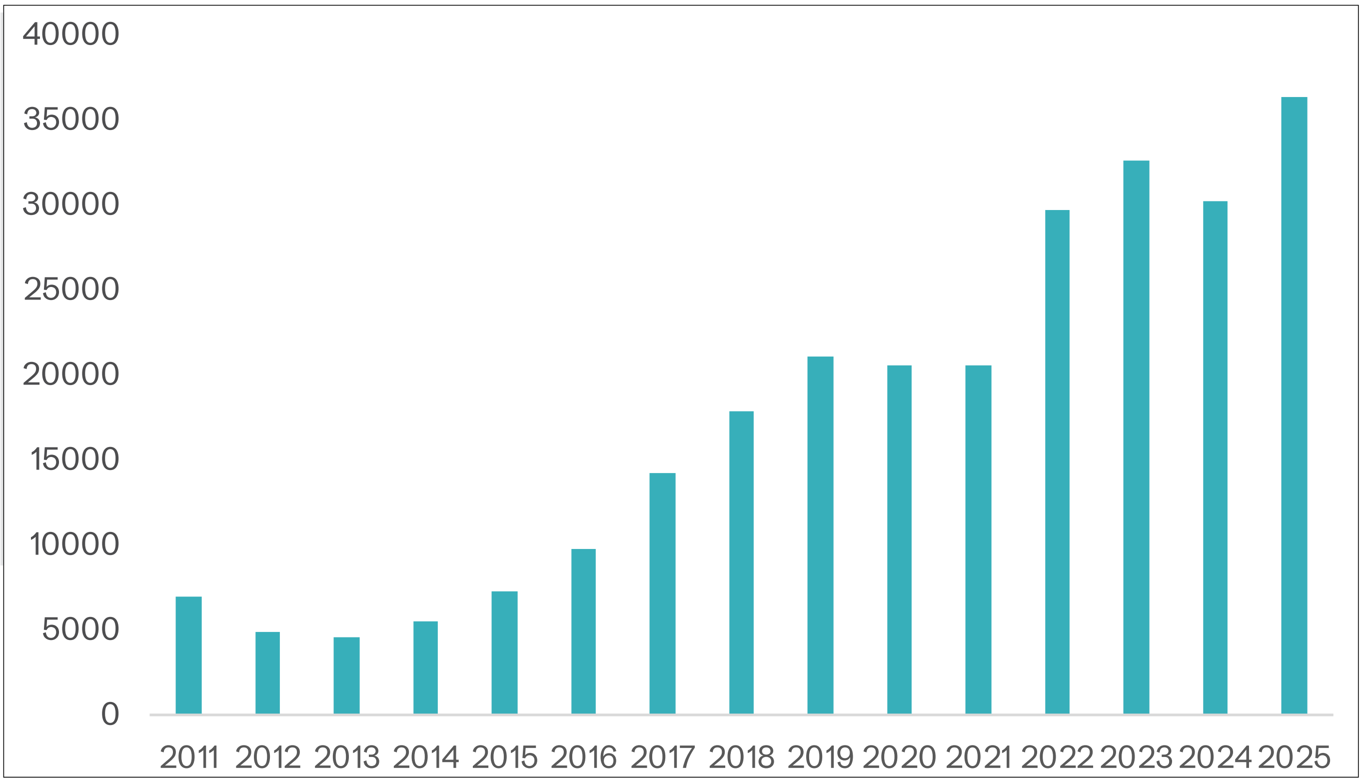
- National average residential property prices were unchanged on the previous month and increased by 6.2 per cent on an annual basis, down from 7.1 per cent in January.
- Average residential property prices outside of Dublin increased by 0.1 per cent compared to the previous month and increased by 6.9 per cent on an annual basis, down from 7.9 per cent in January.
- Average residential property prices in Dublin declined by 0.1 per cent compared to the previous month and increased by 5.4 per cent on an annual basis, down from 6.1 per cent in January.
- The national residential property price index in April 2026 was 25.2 per cent above its highest level at the peak of the property boom in April 2007. Dublin prices were 10.1 per cent higher than their February 2007 peak, and prices outside of Dublin were 28 per cent above their May 2007 peak.

The residential property market is showing some signs of easing, which is not surprising, given the high level of residential prices; the uncertain outlook for interest rates; the potential employment challenges posed by AI; and the deeply uncertain economic outlook resulting from the war. However, demand remains strong.

New Dwelling Completions

36,246 new dwellings were completed in 2025, which is 20.3 per cent higher than the previous year. In the first quarter of 2026, 7,856 new dwellings were completed, which is 32.9 per cent higher than a year earlier. Between 2011 and 2025, an annual average of 17,425 new dwellings were completed, or a total of 261,378 dwellings. Over the same period, the population expanded by 883,700. The supply-demand imbalance in the residential market remains very significant. Ireland needs to deliver an annual average of at least 60,000 new residential units over the next decade.

Figure 5: New Dwelling Completions



Source: CSO PxStat

The Mortgage Market

In 2025 the value of the mortgage market reached €14.5 billion, which was 15.2 per cent higher than 2024. Lending to first-time buyers accounted for 61 per cent of the market in value terms. The average loan for first-time buyers was €319,723, and the average loan for mover-purchasers was €379,754.

The number of mortgages drawn down reached 46,358, which was 7.7 per cent higher than 2024. First-time buyers accounted for 59.6 per cent of the market in volume terms.

In the first quarter of 2026, 9,437 mortgages were drawn down, which was 2.4 per cent ahead of the first quarter of 2025. The value of mortgages drawn down was 7.8 per cent ahead of the first quarter of 2025. First time buyers accounted for 60.6 per cent of the market in value terms. The average loan for first time buyers was €326,875, and the average loan for mover-purchasers was €394,796.

Table 8: Mortgage Market Drawdowns (2025)

Value	First-Time Buyer	Mover Purchaser	Investor	Re-mortgage	Top-Up	Total
(€mln)	8,841	3,335	145	1,699	463	14,483
% of Market VOLUME	61.0%	23.0%	1.0%	11.7%	3.2%	100.0%
Number	27,652	8,782	731	5,913	3,280	46,358
% of Market	59.6%	18.9%	1.6%	12.8%	7.1%	100.0%

Source: BPFI

Irish Merchandise Exports

In 2025, Irish merchandise exports expanded by 16.4 per cent. Exports to the US were up by 52 per cent. Exports of Chemicals & Pharmaceuticals expanded by 21 per cent and accounted for 67.5 per cent of total exports. This magnitude of growth gave a major boost to GDP but was driven by the front-loading ahead of tariffs and was not sustainable. As expected, the export performance has weakened significantly so far in 2026.

Exports in April were 13.2 per cent lower than April 2025, with exports of Medical & Pharmaceutical products down by 27.9 per cent. Exports to the US were down by 45.1 per cent, while exports to the UK were up by 38.6 per cent and exports to EU-27 were down by 4.4 per cent.

In the first 4 months of the year exports of goods were 37.2 per cent down on the first 4 months of 2025, with exports to the US down by 71.5 per cent and exports to the EU were down by 6.2 per cent. Exports to the UK increased by 34.7 per cent.

In the first 4 months, exports of Food declined 1.7 per cent, exports of Machinery & Equipment increased by 39.5 per cent, and exports of Chemicals & Pharmaceuticals declined by 51.6 per cent.

It was inevitable that export growth would slow substantially in the first half of 2026, and this will impact on the GDP growth rate in a significant way.

The Motor Industry

In the first 5 months of 2025, new car registrations increased by 4.68 per cent to reach 83,024. Petrol cars were down by 17.5 per cent; Diesel cars were down by 22.3 per cent; Petrol-Electric Hybrid cars were up by 16.4 per cent; Petrol Plug-in Electric Hybrid cars were up by 2.1 per cent; and Electric Vehicles were up by 53.8 per cent and accounted for 22.94 per cent of the new car market. EV sales are now higher than petrol and diesel sales.

In addition to 83,024 new car registrations, used imports increased by 38.2 per cent to total 38,960 vehicles.

Table 9: New Car Registrations by Engine Type (Jan-May 2026)

	NUMBER	% YEAR-ON-YEAR	% MARKET 2026
Petrol Electric (Hybrid)	21,701	+16.4%	26.14%
Electric	19,045	+53.8%	22.94%
Petrol	17,779	-17.5%	21.41%
Petrol Plug-In Electric Hybrid	11,856	+2.1%	14.28%
Diesel	10,745	-22.3%	12.94%
Diesel-Electric (Hybrid)	1,514	+53.2%	1.82%
Diesel Plug-In Electric Hybrid	384	+30.1%	0.46%
Total	83,024	+4.7%	100.0%

Source: SIMI Motorstat.

The economic outlook

Coming into 2026 the outlook for the Irish economy looked reasonably positive. In the Annual Progress Report in April the Department of Finance outlined its first economic outlook since the Iran conflict commenced. The economic growth forecast has been downgraded, and the General Government Balance is projected to show a larger surplus than previously expected.

Like the IMF, the Department of Finance produced a reference forecast, and two scenarios.

- The 'reference forecast is predicated on energy prices prevailing at mid-March levels of $83. Modified Domestic Demand (MDD) is projected to grow by 2.1 per cent in 2026 and 3 per cent in 2027. Inflation is projected to average 3.3 per cent in 2026 and 2.5 per cent in 2027.
- The 'adverse scenario' is predicated on 'sustained but contained' energy market disruption. This describes a scenario where oil prices average $90 for the rest of 2026, and $88 in 2027. Modified Domestic Demand (MDD) is projected to grow by 2.0 per cent in 2026 and 2.5 per cent in 2027. Inflation is projected to average 3.7 per cent in 2026 and 3.5 per cent in 2027.
- The 'severe scenario' is predicated on 'pronounced and prolonged' energy market disruption. This describes a scenario where oil prices reach $150 in the second quarter, and remain at elevated levels in 2027, with an average price of $125 in 2027. Modified Domestic Demand (MDD) is projected to grow by 1.5 per cent in 2026 and 2 per cent in 2027. Inflation is projected to average 4.6 per cent in 2026 and 5.3 per cent in 2027.

The overall conclusion is that the future is extremely uncertain, and the ultimate economic fallout will depend on the depth and duration of the conflict. The good news is that the Iran conflict may be de-escalating and global oil prices are declining. However, Ireland has structurally high retail electricity prices, partly stemming from infrastructure bottlenecks, so continued pressure on energy prices could weigh on vulnerable households.

Trade in goods with the Middle East is relatively small (around 2 per cent of total goods trade in 2025). As such, exposure to the conflict is largely indirect, mainly reflecting terms-of-trade effects. Direct exposure to import tariffs imposed by the United States is limited. Pharmaceuticals, which accounted for around 85 per cent of goods exports to the United States in 2025, remain exempt, largely reflecting firm-level agreements. However, recent tariff increases on inputs, such as aluminium, may raise production costs in some exposed manufacturing sectors.

Concentration risk is an important consideration for Irish policy makers.

- At the end of 2025, 312,540 mainly high-paid workers were employed in the multi-national sector.
- 86 per cent of tax revenues flowed from VAT, Income Tax and Corporation Tax.
- 57 per cent of corporation tax derived from 10 multinationals.
- Three companies, Apple, Microsoft & Eli Lilly account for 46 per cent of Corporation Tax
- Manufacturing accounted for one third of corporation tax and is 97.6 per cent multinational.
- ICT accounted for one fifth of corporation tax and is 99.7 per cent multinational.
- Finance accounted for one seventh of corporation tax and is 84.2 per cent multinational.
- The top 10 per cent of income earners contributed 40 per cent of income tax and 60 per cent of USC.

Ireland has an inordinate dependence on foreign-owned companies, primarily US owned, in terms of corporation and income tax receipts, and employment. This is why what President Trump says and does really does matter; why investment in all forms of infrastructure is essential; and why Ireland needs to preserve its status as a good country in which to do business. Significant investment is needed in renewable energy, water, general infrastructure, housing, and public services.

The economy looks set to deliver another solid year in 2026, although some modest weakening of the labour market is likely. Growth of around 2.5 per cent in the real economy looks achievable, which would represent a solid outturn.

THIS PUBLICATION IS BASED ON DATA AVAILABLE UP TO AND INCLUDING 18 JUNE 2026.

The views expressed in this article reflect those of Jim Power and are for informational purposes only. They do not represent the views of Aviva. Jim Power's views may change.

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